


ANNUAL REPORT



1971



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Directors

R. J. ANDERSON
J. S. DEACON
S. E. EDWARDS, Q.C.
A. GOLD
WM. W. LAIRD, Q.C.

Officers

A. GOLD,
PRESIDENT
WM. W. LAIRD, Q.C.,
EXECUTIVE VICE PRESIDENT
L. R. DOBBIN,
VICE PRESIDENT & GENERAL MANAGER
S. E. EDWARDS, Q.C.,
SECRETARY

Head Office and Plant

GALT, Ontario

Bankers

Royal Bank of Canada

Solicitors

Fraser & Beatty

Transfer Agents and Registrars

National Trust Company,
Toronto

Auditors

Thorne, Gunn, Helliwell &
Christenson
Chartered Accountants, Toronto

Annual Meeting

July 4, 1972 — 10:30 a.m.
Head Office, Galt, Ontario

Report of the directors

TO THE SHAREHOLDERS

On behalf of the Board of Directors, I have pleasure in submitting the Annual Report for the year ended December 31, 1971 along with the Financial Statements and the Report of the Auditors.

FINANCIAL HIGHLIGHTS

	1971	1970	% INCREASE OR (DECREASE)
Net Sales	\$4,448,000	\$4,720,000	(6%)
Net Loss	80,000	144,000	(45%)
Net Loss per Common Share82	1.20	(32%)
Cash Flow from Operations	122,000	30,000	306%
Long-Term Debt	764,000	515,000	48%
Working Capital	380,000	490,000	(22%)
Working Capital Ratio	1.32:1	1.43:1	(8%)

SALES

Sales dollars for the year 1971 were down 6% from the year 1970, however, pounds of yarn sold were up 22%.

The main reasons for lower sales in 1971 were a change to commission throwing of some yarns and erosion of the selling prices on all products.

Selling prices of textured polyester yarns fell by 25% over the year and of textured nylon by 10%.

The sale of polyester yarns did not reach the level anticipated because of the swing of ladies fashions away from polyester in mid year.

EARNINGS

The loss before giving effect to income taxes was \$113,000 compared to \$275,000 in 1970. An income tax adjustment of only \$33,000 was available in 1971 compared to an income tax adjustment of \$131,000 in 1970. The net loss for 1971 was \$80,000 in 1971 compared to \$144,000 in 1970.

Another major factor affecting earnings in 1971 was the erosion of the upcharge* available to the Company on its products as market prices continued to be pushed downward by imported yarn prices.

*(Difference between raw material cost and selling price).

BALANCE SHEET

Working capital decreased by \$110,000 (22%) mainly as a result of the increase by \$102,000 of long-term debt payable within one year.

Inventories show an increase of \$77,000 (15%) due to increased poundage on hand required to service the expected increase in sales from the equipment installed in mid 1971.

Receivables show a favourable decrease of \$30,000 (3%) and in addition the percentage of current shipments to total receivables has increased substantially.

Fixed asset additions were \$477,000 during the year with the addition of high speed versatile texturizing equipment.

Long-term debt increased by \$249,000 (48%) in 1971 with the additional borrowing required to finance the equipment acquisitions.

The final redemption (\$60,000) of 6½% mortgage bonds will take place in September, 1972.

THE OUTLOOK

The outlook for 1972 depends heavily on the implementation of the Federal Government's Textile Policy.

The polyester over capacity in Japan and Europe—coupled with the global trading agreements recently concluded by the United States has left the Canadian market a prime target for the importation of yarns, fabrics and garments at prices below the Canadian producer's cost of manufacture.

The outcome of the hearings now in progress with the Textile & Clothing Board on Knit and Woven fabrics, will have a direct bearing on the markets your company serves. In addition a hearing has been requested on yarn imports.

UNION AGREEMENT

The labour relations agreement with the union representing our employees was signed for the period January 1, 1972 to December 31, 1973.

EMPLOYEES

We wish to express our thanks to all our employees for their loyalty and support through a very difficult year.

A. GOLD
President

AUDITORS' REPORT

TO THE SHAREHOLDERS OF RIVERSIDE YARNS LIMITED

We have examined the balance sheet of Riverside Yarns Limited as at December 31, 1971 and the statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1971 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Galt, Ontario
February 1, 1972

THORNE, GUNN, HELLIWELL & CHRISTENSON,
Chartered Accountants

Riverside Yarns Limited

STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1971

(with comparative figures for 1970)

	1971	1970
Sales	\$4,448,320	\$4,719,889
Cost of goods sold, excluding depreciation	3,836,121	4,173,538
Gross profit, excluding depreciation	612,199	546,351
Selling and administrative expenses	404,892	449,518
Interest on long-term debt	88,758	72,653
Financing expenses amortized	3,767	4,066
	497,417	526,237
Earnings before undernoted items	114,782	20,114
Profit (loss) on sale of fixed assets	3,729	(32,887)
	118,511	(12,773)
Depreciation	231,983	262,234
Loss before income taxes	113,472	275,007
Income taxes (note 5)		
Recoverable	—	38,959
Deferred reduction	33,421	91,764
	33,421	130,723
LOSS FOR THE YEAR (note 7)	\$ 80,051	\$ 144,284

STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1971

(with comparative figures for 1970)

	1971	1970
Balance at beginning of year	\$ 482,479	\$ 634,056
Loss for the year	80,051	144,284
Expenses re capital reorganization	—	7,293
	80,051	151,577
BALANCE AT END OF YEAR	\$ 402,428	\$ 482,479

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1971

(with comparative figures for 1970)

	1971	1970
SOURCE OF FUNDS		
Operations		
Loss for the year	\$ (80,051)	\$ (144,284)
Items not involving current funds		
Depreciation and amortization	235,750	266,300
Deferred income taxes	(33,421)	(91,764)
(Profit) loss on sale of fixed assets	(3,729)	32,887
	<hr/>	<hr/>
	118,549	63,139
Proceeds from sale of fixed assets	4,426	179,296
Proceeds of mortgage payable	500,000	—
	<hr/>	<hr/>
	622,975	242,435
	<hr/>	<hr/>
 APPLICATION OF FUNDS		
Additions to fixed assets	476,804	18,861
Principal on long-term debt paid or included		
in current liabilities	250,400	140,400
Financing expenses incurred	5,392	150
Expenses re capital reorganization	—	7,293
	<hr/>	<hr/>
	732,596	166,704
	<hr/>	<hr/>
INCREASE (DECREASE) IN WORKING CAPITAL	(109,621)	75,731
WORKING CAPITAL AT BEGINNING OF YEAR	490,004	414,273
	<hr/>	<hr/>
WORKING CAPITAL AT END OF YEAR	\$ 380,383	\$ 490,004
	<hr/>	<hr/>

Riverside Yarns Limited

(Incorporated under the laws of Ontario)

BALANCE SHEET — DECEMBER 31, 1971

(with comparative figures at December 31, 1970)

ASSETS		
	1971	1970
CURRENT ASSETS		
Accounts receivable	\$ 917,600	\$ 947,170
Income taxes recoverable	2,361	42,707
Inventories (note 1)	589,291	511,801
Prepaid expenses	73,213	73,828
Deposits on equipment purchases	—	41,063
	<hr/> 1,582,465	<hr/> 1,616,569
FIXED ASSETS (note 2)		
Land, buildings, machinery and equipment	2,575,272	2,171,846
Less accumulated depreciation	1,440,804	1,281,503
	<hr/> 1,134,468	<hr/> 890,343
DEFERRED FINANCING EXPENSES, less amortization	9,777	8,153
	<hr/> \$2,726,710	<hr/> \$2,515,065
LIABILITIES		
CURRENT LIABILITIES		
Bank advances (note 3)	\$ 242,241	\$ 421,609
Accounts payable and accrued liabilities	674,488	533,165
Taxes payable	43,263	31,391
Principal due within one year on long-term debt	242,090	140,400
	<hr/> 1,202,082	<hr/> 1,126,565
LONG-TERM DEBT (note 4)	764,200	514,600
DEFERRED INCOME TAXES (note 5)	—	33,421
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 6)		
Authorized		
120,000 Class A \$.50 cumulative convertible voting shares without par value		
290,000 Common shares without par value		
Issued		
120,000 Class A shares }	358,000	358,000
170,000 Common shares }		
RETAINED EARNINGS	402,428	482,479
	<hr/> 760,428	<hr/> 840,479
	<hr/> \$2,726,710	<hr/> \$2,515,065

Director: J. S. DEACON

Approved by the Board

Director: W. W. LAIRD, Q.C.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1971

1. INVENTORIES

	1971	1970
Raw materials	\$ 131,833	\$ 102,594
Work in process	124,789	115,657
Finished goods	332,669	293,550
	<u>\$ 589,291</u>	<u>\$ 511,801</u>

Raw materials are valued at lower of cost and replacement cost. Work in process and finished goods are valued at lower of cost and net realizable value.

2. FIXED ASSETS

	1971		1970	
	Asset value	Accumulated depreciation	Net	Net
Land	\$ 6,600	—	\$ 6,600	\$ 6,600
Buildings	383,305	\$ 262,839	120,466	124,566
Machinery and equipment	2,185,367	1,177,965	1,007,402	759,177
	<u>\$2,575,272</u>	<u>\$1,440,804</u>	<u>\$1,134,468</u>	<u>\$ 890,343</u>

Land and buildings are valued at replacement value as of April 20, 1928 with subsequent additions at cost. Machinery and equipment are valued at cost.

It is the company's policy to write off the cost of fixed assets over the estimated number of years in which the asset can economically contribute to earnings.

Asset Class	Rate	Method
Buildings	5%	declining balance
Machinery and equipment		
Additions prior to 1968	20%	declining balance
1968 and subsequent additions mainly	20%	straight line

3. BANK ADVANCES

Accounts receivable and inventories are pledged as security for bank advances.

4. LONG-TERM DEBT

6½% First mortgage sinking fund bonds, Series A, maturing September 15, 1972	\$ 60,000	\$ 70,000
9% Mortgage loan, maturing February 22, 1975	254,600	335,000
12% Mortgage bond, maturing December 15, 1975	200,000	250,000
12% Mortgage loan, maturing April 23, 1977	491,690	—
	<u>1,006,290</u>	<u>655,000</u>
Less principal included in current liabilities	242,090	140,400
	<u>\$ 764,200</u>	<u>\$ 514,600</u>

Riverside Yarns Limited

4. LONG-TERM DEBT (Continued)

These debt instruments are secured by the company's fixed assets and in addition the 12% mortgage loan is secured by a floating charge on all assets and undertakings of the company.

Principal due within each of the next five years is as follows:

1972	\$242,090
1973	226,400
1974	226,400
1975	159,400
1976	96,000

5. INCOME TAXES

In 1971 depreciation recorded in the accounts exceeded capital cost allowance claimed for tax purposes with the result that undepreciated capital cost exceeded net book value of depreciable fixed assets at December 31, 1971.

Excess of undepreciated capital cost over net book value of depreciable fixed assets amounting to approximately \$60,000 is available as a deduction from future income for tax purposes. The tax effect of this excess has not been recorded in the accounts.

Additional capital cost allowance which does not affect deferred income taxes is available for Federal tax purposes under Regulation 1102 (15) (16) of the Income Tax Act in the amount of approximately \$70,000.

6. CAPITAL STOCK

The Class A shares are convertible into common shares on the basis of one common share for each two Class A shares converted.

Dividends on Class A shares are paid to December 31, 1969 and arrears at December 31, 1971 amount to \$1 per share totalling \$120,000.

Conditions attaching to the mortgage loans place certain restrictions on the payment of dividends.

7. LOSS PER COMMON SHARE

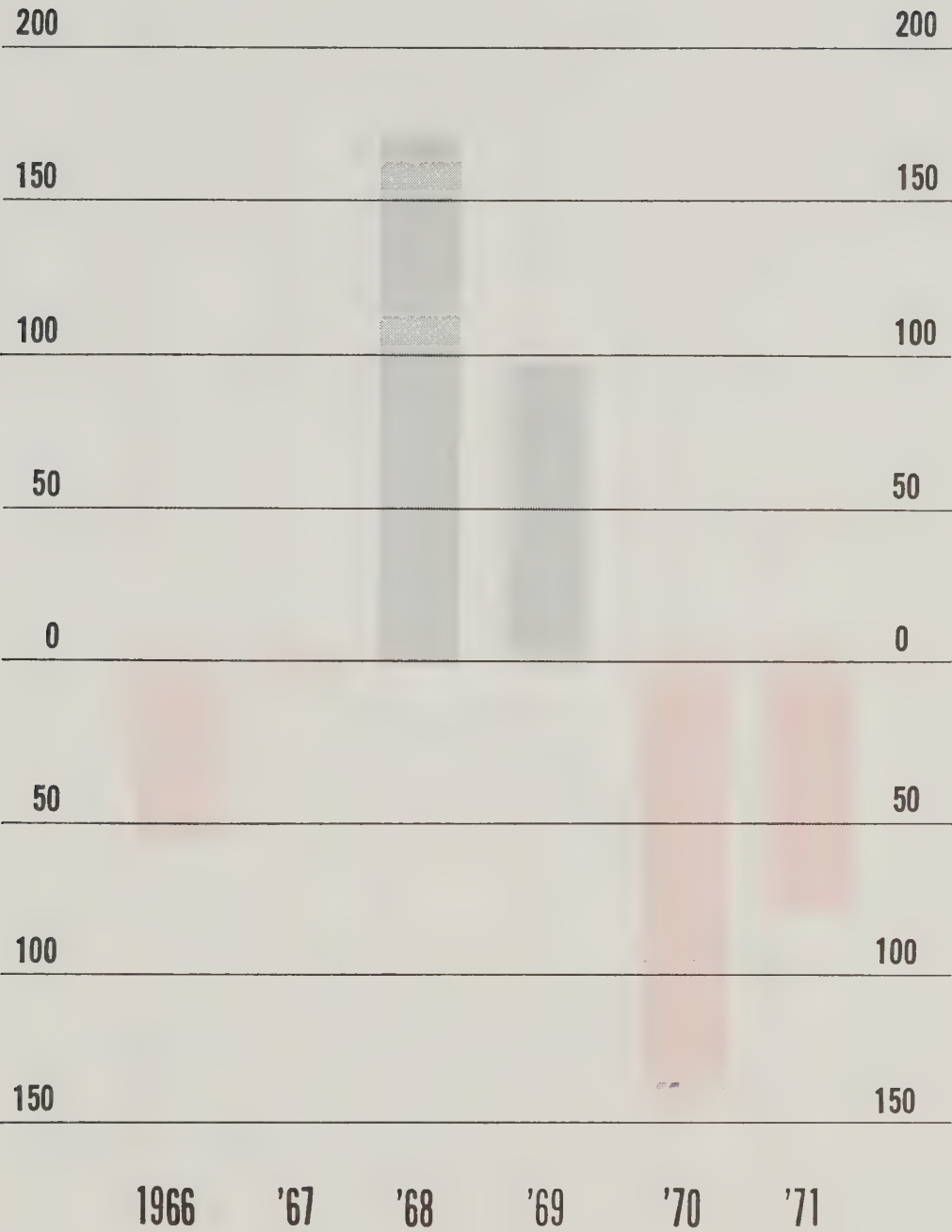
Loss per common share after provision for cumulative dividends for the year on Class A shares: 1971, \$.82; 1970, \$1.20.

8. OTHER STATUTORY INFORMATION

	1971	1970
Direct remuneration of directors and senior officers (as defined by The Business Corporations Act)	\$ 84,022	\$ 81,504

PROFIT and LOSS

Thousands of dollars



Riverside Yarns Limited

SALES

BAR - SALES IN MILLIONS OF DOLLARS
LINE - SALES IN MILLIONS OF POUNDS



Six Year
Financial Summary
See Overleaf

SIX YEAR FINANCIAL SUMMARY

INCOME AND EXPENSE

	1971	1970	1969	1968	1967	1966
Sales	\$4,448,320	\$4,719,889	\$4,797,135	\$4,745,554	\$3,615,773	\$2,792,888
Cost of goods sold excluding depreciation	3,836,121	4,173,538	4,070,176	3,982,072	3,266,049	2,533,180
Gross profit	612,199	546,351	726,959	763,482	349,724	259,708
Selling and administrative expenses	403,692	448,218	327,538	286,648	223,626	194,878
Directors' fees	1,200	1,300	2,600	1,300	1,800	1,500
Interest on long-term debt	88,758	72,653	46,425	23,483	30,105	33,692
Financing expenses amortized	3,767	4,066	1,665	1,636	2,157	2,448
	497,417	526,237	378,228	313,067	257,688	232,518
Earnings before undernoted items	114,782	20,114	348,731	450,415	92,036	27,190
Profit (loss) on sale of fixed assets	3,729	(32,887)	10,845	2,399	999	(998)
	118,511	(12,773)	359,576	452,814	93,035	26,192
Depreciation	231,983	262,234	183,577	123,146	96,998	109,547
Earnings (loss) before income taxes	(113,472)	(275,007)	175,999	329,668	(3,963)	(83,355)
Income taxes						
Current		(38,959)	38,959	71,329		
Deferred	(33,421)	(91,764)	44,436	85,861	(299)	(29,404)
	(33,421)	(130,723)	83,395	157,190	(299)	(29,404)
Net earnings (loss) for year	\$ (80,051)	\$ (144,284)	\$ 92,604	\$172,478	\$ (3,664)	\$ (53,951)

FINANCIAL AND OTHER INFORMATION

	1971	1970	1969	1968	1967	1966
Working capital	380,383	490,004	414,273	621,510	526,155	549,339
Working capital ratio	1.32:1	1.43:1	1.35:1	1.68:1	1.60:1	1.64:1
Long-term debt	764,200	514,600	655,000	494,900	243,520	350,480
Shareholders' equity	760,428	840,479	992,056	966,066	793,588	769,252
Number of shares outstanding — Class A	120,000	120,000	120,000	120,000	120,000	120,000
Equity per share — Common	170,000	170,000	170,000	170,000	170,000	142,000
Equity per share — Class A	3.21	3.19	3.42	3.33	2.74	2.94
Net earnings (loss) per share — Common	2.21	2.69	3.42	3.33	2.74	2.94
Dividends paid per share — Class A	(.82)	(1.20)	.19	1.01	(.02)	(.48)
Dividends paid per share — Common	—	—	.50	—	—	.125
Dividend arrears per share — Class A	—	—	—	—	—	—
Cash flow from operations	1.00	.50	—	—	—	—
% of cash flow to shareholders' equity	122,278	30,252	322,282	383,121	95,192	28,640
Purchase of fixed assets	16.1%	3.6%	32.4%	39.7%	12.0%	3.7%
Fixed assets (net)	476,804	18,861	632,762	544,379	43,254	42,260
	1,134,468	890,343	1,345,899	915,362	500,857	558,439

NOTE: Number of shares outstanding and per share items have been restated for years prior to 1970 to reflect the 1970 capital reorganization.

MEMORANDA

